Improving Life and the Environment

Testimony of C. David Myers
Johnson Controls, Inc.
On behalf of the Air-Conditioning and Refrigeration Institute and
the Gas Appliance Manufacturers Association
Before the
Committee on Energy and Commerce
U.S. House of Representatives

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Mr. Chairman, Members of the Committee, my name is C. David Myers and I am Vice-President and President, Building Efficiency, Johnson Controls, Incorporated. I appreciate this opportunity to talk with you today about energy policy, energy efficiency, and ways that we believe that government can collaborate with industry to promote new and effective efficiency and conservation programs.

Today, I am speaking on behalf of ARI and GAMA, the national trade associations representing manufacturers of residential and commercial furnaces, boilers, water heaters, residential and commercial air conditioning systems, and commercial refrigeration products. This industry is a domestic manufacturing industry with combined shipments valued at over $50 billion annually, and we contribute a positive $2.3 billion to the U.S. balance of trade. Our 365 member companies employ over 240,000 American men and women in every state in the union.

Our member companies have a long history of support for energy efficiency. ARI and GAMA were principal supporters of the National Appliance Energy Conservation Act of 1987 (NAECA). By joining forces with the Natural Resources Defense Council, other environmental groups, and a number of states, we negotiated the initial national minimum standards and standards review schedule for a wide range of residential products. Five years later, we negotiated the national minimum standards for commercial products that were enacted in the Energy Policy Act of 1992. Recently, we negotiated national standards for commercial unit heaters, commercial refrigeration products, large packaged air-conditioning units, and commercial icemakers that were included in the 2005 Energy Policy Act. Last year, we negotiated new national minimum standards for residential and commercial boilers, and we are completing an agreement to set standards for walk-in refrigerators and freezers.

Importantly, the success of NAECA, EPACT and the consensus process has always been based on a commitment to three essential elements: (1) legislated initial national standards; (2) a schedule for periodic review of the standards by DOE; and (3) strong federal preemption of state and local regulation of NAECA-covered products.

This brings me to our concerns within the current policy debate. There are those who would have this Committee discard the fundamental principles of national efficiency

standards, periodic reviews, and preemption. Instead, they urge you to amend the law to allow the promulgation of regional minimum efficiency standards and weaken federal preemption. We strongly oppose these policies because they would not accomplish the goal of reducing energy demand and would instead lead to the inability of DOE to administer and enforce these programs.

Regional standards are impossible to enforce without federal government involvement at the point of installation of every covered product. It would also complicate product distribution and would create additional bureaucratic red tape. Today, enforcement of the national standards is directed at the manufacturing level or at the point of entry for imported products. ARI's and GAMA's performance certification programs assist DOE standards enforcement by verifying that products covered by those programs satisfy applicable federal standards.

If uniform national standards were replaced by regional standards, enforcement would have to shift to the retail level -- far beyond the resources of DOE. Ineffective or inconsistent standards enforcement would result in market uncertainty for manufacturers, which would make product planning and distribution unpredictable and much more difficult.

Regional standards would also undermine economies of scale in our industry. When identical units of a good or a service can be produced on a larger scale with less lower input costs, economies of scale can be achieved. This means that prices can decline and our industry can remain competitive in the face of low-cost imports. This is an important point. We are a U.S. based manufacturing industry competing with global interests that have a seemingly unlimited supply of inexpensive labor. Achieving economies of scale allows us to remain competitive and to continue to operate successfully in the United States.

Congress should not assume that regional standards would result in faster or greater energy efficiency savings. Because of the impossibility of enforcement and the inability of manufacturers to control the distribution of their products, significant energy savings would be unlikely to occur quickly. . The current program is successful because manufacturers, through the ARI and GAMA certification programs, can ensure that no products below the federal minimum are manufactured or imported for sale in the United States. This guarantee and enforcement mechanism would be unavailable if regional standards were implemented.

It is also important to understand that simply raising minimum efficiency levels will not increase the replacement rate of lower efficient products with those that are more efficient. Revised residential air conditioning standards took effect in January of 2006, increasing the minimum efficiency level from a 10 to a 13 seasonal energy efficiency ratio (SEER). During the debate regarding the revision to the standard, we raised concerns that pushing the standard to a 13 SEER level would lead to a greater number of repairs rather than replacement due to increased cost. This is exactly what has occurred.

When consumers have had to choose between repair or replacement that was costlier than anticipated, they have chosen to repair older, less efficient equipment rather than install the newer, more efficient equipment.

Proof of this phenomenon is illustrated by the approximately 25 percent increase in parts sales in 2006, coupled with a corresponding decline in new equipment sales. The policy of relying on higher minimum standards alone has ensured that older, less efficient equipment remains in service longer because of higher costs. We would expect to see a similar decline in sales of heating products – for the same reasons.

Regional standards would significantly increase cost to consumers, with a disproportionate impact on those living on fixed incomes or near the poverty level. Highly efficient equipment costs more because they use more raw materials such as copper, aluminum, and steel; and the use of more costly components such as thermo expansion valves and variable frequency drives.

For example, the average cost increase resulting from the recent shift to a 13 SEER minimum standard is approximately $700.00 per unit. (This excludes additional significant costs for installation of larger units in space-constrained areas.) Regional standards would push this cost significantly beyond the $700 increase per unit, because manufacturers would not have the economies of scale that occur with a national standard.

In the United States, there are 13.2 million homeowners with incomes below $21,920.00 per year; another 9.8 million – or 23 million total – with incomes below $35,072; and an additional 11.8 million – or 34.8 million total – with incomes below $52,608 according to the National Low Income Housing Coalition. It is simply inaccurate to suggest that those in low-income brackets do not purchase homes and therefore would be unaffected by the costs associated by increased standards. For older Americans, there is a significant burden too. Half of the households headed by persons 65 and older live on less than $37,000 annually.

Setting regional standards would make new equipment unaffordable for many seniors, working families, and low-income consumers, many of whom own single family homes and many of whom rely on air conditioning for their health and well being. Furthermore, most consumers will never receive a payback from the energy savings over the entire life of the equipment because of these cost increases.

ARI and GAMA strongly support federal preemption as the key to successful appliance efficiency policy because it ensures predictability and consistency in regulations particularly regarding energy performance standards, labeling requirements, information disclosure, and marketing. It also allows manufacturers to avoid duplicitous or inconsistent state regulations. We oppose a policy that promotes the dissolution of federal preemption when the DOE fails to set efficiency standards for a covered product, or when the DOE deliberately decides not to set an efficiency standard for a covered product because it was deemed not technically feasible or economically justified.

Concern about whether DOE is fulfilling its statutory responsibilities in this area should be addressed through Congressional oversight of the agency rather than by automatic abdication of federal authority to the states.

GAMA and ARI firmly believe in voluntary self regulation, but we agree that there are certain issues that require government oversight in order to ensure fair competition to protect consumers. It is when the federal government fails to actively manage these issues that special interest groups begin advocating for state or regional appliance standards. However, because most states lack the resources to implement and -- more important -- to enforce, these regulatory programs, they are unable to achieve expected energy savings and instead create confusion among consumers. Federal standards programs that provide strong preemption provisions eliminate these issues.

For the HVACR industry to produce efficient, reliable products, preemption and energy conservation regulations must be streamlined to fit one national standard. This will provide our industry with consistent policies that will not disrupt the heating and cooling appliance marketplace. ARI and GAMA strongly support the current system administered by DOE and we urge Congress not to undercut a program that has worked and continues to work by providing significant actual energy savings, while preserving economic competitiveness and good manufacturing jobs

Effective Alternative Energy Efficiency Policy

If it is the purpose of this policy debate to find ways to save energy as soon as possible, creating regional standards and dismantling preemption are not the answer. Instead, we support policies that focus on a combination of effective minimum efficiency standards, federal efficiency programs, consumer incentives, research programs, and worker training and certification. Specifically:

- **Residential Energy Efficiency Initiatives**: Incentives, rebates, and other voluntary programs to encourage the purchase of higher efficiency residential products and the earlier replacement of older less efficient and environmentally friendly products in residences today.

- **Commercial Energy Efficiency Tax Policy:** Pass the "Cool and Efficient Buildings Act" to accelerate the current 39-year depreciation schedule for HVACR equipment to encourage the purchase of newer, energy efficient, more environmentally friendly, commercial cooling equipment in buildings and reflect the actual useful life of the equipment.

- **Worker Education and Certification:** Enhanced education and training through worker training programs, shifting general education funding to applied technology programs, stronger state licensing and technician certification. The Industry Competency Exams (ICE) and the North American Technician Excellence (NATE), provide the industry endorsed benchmarks so that equipment is installed and repaired correctly to reach optimum performance.

- **Federal Efficiency Programs:** Continued federal funding and use of innovative financing mechanisms, to help increase the energy efficiency of government owned housing and buildings. We also call on federal and state governments to institute aggressive programs to expedite the replacement of all CFC chillers, saving energy and protecting the environment.

- **Research and Development:** Comprehensive energy policy must include significant funding for research and development of energy efficient technologies including research for the next generation of air conditioning and commercial refrigeration equipment

It is our hope that we can work with the committee to fully develop these and similar policies to encourage, promote, and achieve actual and sustained energy savings.

Mr. Chairman, thank you for the opportunity to present the views of our industry on energy efficiency and energy policy. I would be pleased to answer any questions you or other committee Members might have, and I should add that the expertise of our industry is at your service to aid you in arriving at appropriate decisions in this important matter.

Thank you,

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